

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

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E.O. 11652: N/A

TAGS: EEC, ETRD

SUBJECT: EC EXPORT SUBSIDIES FOR BARLEY MALT

REF: STATE 235985

1. MISSION OFFICERS MET WITH EC COMMISSION OFFICIALS ON OCT. 9 TO EXPRESS USG CONCERN OVER THE DISRUPTING EFFECTS OF THE EC SUBSIDIES ON BARLEY MALT ON US EXPORTS. WE ASKED FOR EXPLANATIONS OF THE HIGH SUBSIDY RATES IN MAY THROUGH JULY AND FOR THE LONG PERIOD ALLOWED FOR ADVANCE FIXING. WE ALSO ASKED FOR INFORMATION THE QUANTITIES OF MALT FOR WHICH SUBSIDIES WERE PREFIXED IN MAY-JULY, AND FOR PRODUCTION, CONSUMPTION, EXPORT AND PRICE DATA.

2. COMMISSION OFFICIALS CONFIRMED THE FIGURES CITED IN PARA 2 OF REFTEL FOR THE SUBSIDIES. THEY ALSO WERE WORRIED ABOUT THE SIZE OF THE SUBSIDY AND ACKNOWLEDGED THAT THE SYSTEM FOR SETTING EXPORT SUBSIDIES ON PROCESSED FOOD PRODUCTS IS NOT FUNCTIONING SATISFACTORILY AND THEY ARE CURRENTLY URGENTLY CONSIDERING A REVISION IN THE SYSTEM FOR SETTING EXPORT SUBSIDIES ON ALL PROCESSED FOOD PRODUCTS, INCLUDING BARLEY MALT.

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3. THE SUBSIDIES IN THIS CASE WERE BASED ON THE AVERAGE

IMPORT LEVY FOR THE PRECEDING MONTH, MULTIPLIED BY A COEFFICIENT EXPRESSING THE RELATIONSHIP BETWEEN THE RAW MATERIAL AND THE PROCESSED PRODUCT. WHEN THESE SUBSIDIES WERE SET, THE IMPORT LEVIES ON BARLEY WERE HIGH. WE NOTED THAT AT THAT PERIOD BARLEY MALT PRICES WERE RELATIVELY HIGH AND THAT THERE DID NOT THEREFORE APPEAR TO BE A NEED FOR SUCH HIGH EXPORT SUBSIDIES. THEY RESPONDED THAT THIS WAS TRUE, BUT PRICES OF FEED BARLEY WERE NOT THEN HIGH, AND IT WAS ON FEED BARLEY PRICES AND LEVIES THAT THE EXPORT SUBSIDIES WERE BASED. (THE SYSTEM IS THUS BASED ON FEED BARLEY PRICES.) THIS PRACTICE WAS EXPLAINED AS BEING CAUSED BY THE LACK OF IMPORT PRICE DATA FOR BARLEY MALT.

4. COMMISSION OFFICIALS ALSO CONFIRMED THAT 12 MONTHS IS THE PERIOD OF PREFIXATION FOR BARLEY MALT AND THAT THIS IS AND UNUSUALLY LONG PERIOD. THEIR EXPLANATION FOR IT IS THAT PURCHASERS OF EC MALT, BREWERIES IN JAPAN AND AFRICA, CUSTOMARILY MAKE CONTRACTS ON AN ANNUAL BASIS.

5. COMMISSION OFFICIALS HAD ONLY ROUGH FIGURES FOR PREFIXATION AND HAVE PROMISED TO GIVE US MORE. HOWEVER, THEY COULD PROVIDE THE FOLLOWING. IN THE CROP YEAR ENDING JULY 1973, 1.1 MILLION TONS WERE PREFIXED; IN 1974, 1.2 MILLION TONS; 1975, 1.8 MILLION TONS. SO FAR IN THIS CROP YEAR, BEGINNING AUGUST 1, ONLY 20-21 THOUSAND TONS HAVE BEEN PREFIXED. THEY ARGUED THAT THE FIGURES FOR THE 1975 CROP, WHILE LARGE AND FRIGHTENING, WERE MISLEADING BECAUSE THE EC' EXPORT CAPABILITY WAS MUCH SMALLER. NORMALLY, THEY SAID, BARLEY MALT PRODUCTION IN THE EC WAS ROUGHTLY 4.8 MILLION TONS, INTERNAL CONSUMPTION 4 MILLION TONS, AND EXPORT AVAILABILITIES 800 OR 900 THOUSAND TONS. WE POINTED OUT THAT IF EXPORTING WAS MORE PROFITABLE, THERE COULD BE A SHIFT FROM DOMESTIC MARKET SALES TO EXPORTS. THEY AGREED, BUT SAID THAT SO FAR THERE WERE NO SIGNS, IN TERMS OF INTERNAL PRICE RISES OR SHORTAGES, OF SUCH A SHIFT TAKING PLACE.

6. THE FACT THAT THE AUSTRALIANS HAVE CALLED ON LIMITED OFFICIAL USE

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THE COMMISSION AND ASKED SIMILAR QUESTIONS WAS VOLUNTEERED TO US BY THE COMMISSION OFFICIALS, WHO ADDED THAT THE AUSTRALIANS HAD SUGGESTED SPECIFIC IMPROVEMENTS IN THE SUBSIDY SYSTEM. WE UNDERSTAND FROM TALKING WITH THE AUSTRALIANS AND THE CANADIANS THAT EC COMMISSION OFFICIALS AWOKE TO LATE TO THE UNJUSTIFIABLE HIGH EXPORT SUBSIDIES BEING FIXED IN ADVANCE. THIS HAS CAUSED A MILD SCANDAL WITHIN THE

COMMISSION, NEWS OF WHICH APPARENTLY HAS NOT YET SEEPED
OUT.

7. WE HAVE OBTAINED INDEPENDENTLY THE FOLLOWING DATA
SHOWING THE QUANTITIES OF BARLEY MALT FOR WHICH THE
SUBSIDY HAD BEEN PREFIXED: (IN METRIC TONS)

| | 1973/74 | 1974/75 |
|----------|-----------|-----------|
| 8/1-5/31 | 313,700 | 322,000 |
| 6/1-7/31 | 868,300 | 1,507,000 |
| TOTAL | 1,182,000 | 1,829,000 |

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